



State plans 1,550% tax hike on some wines

Jan Norman, small-business columnist

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The Board of Equalization has proposed taxing certain wines as distilled spirits, which would increase the excise tax on the wine from 20 cents a gallon to \$3.30 a gallon, a 1,550% jump.

The higher tax is on wines to which distilled alcohol has been added, such as wine specialties, flavored table wine, wine cocktails, wine coolers or blends of wine from different fruits. It is set to go into effect Jan. 1, 2012.

The excise tax is paid by manufacturers, wine growers and importers and if they fail to pay it, by retailers who typically pass it on to consumers, several retailers told the Register. In the past two years, the state has collected an average \$158 million for beer and wine and \$165.5 million for distilled spirits per year, the board said.



The San Francisco-based Wine Institute has taken no position on the tax increase, said spokeswoman Gladys Horiuchi.

The board does not say the tax increase will raise money at a time the state faces a \$25 billion deficit. Instead the hike is represented as a clarification and an equality issue.

In 2006, the California Friday Night Live Partnership, Students Making a Community Change, and the California Youth Council asked the board for the tax hike from 20 cents to \$3.30 a gallon on flavored malt beverages to discourage underage drinking.

These malt beverages include hard lemonade, hard ice tea and Smirnoff Ice. The board approved the increase in 2008, saying the higher tax would raise \$41 million for the state coffers. Instead, it raised almost nothing because the beverage producers reformulated their drinks, said Ari Dana, in the office of

board member Michelle Steel, who represents Orange County and who cast the sole vote against the tax hike.

The issue exemplifies the slippery slope that government starts down with a well-intentioned tax increase with unexpected consequences, Dana said.

Steel said, "This is a new, unnecessary regulation that created an added burden for wine producers."

Board Chairman Jerome E. Horton said, "This new regulation clarifies the definition of wine products and the application of tax on wine-based products that contain distilled alcohol."

Dana countered, "They say it clarifies the regulation but we say it's not clarifying, it's a complication."

This new definition for state tax purposes is different than the one used by the state Alcohol Beverage Control board and by the federal government, [according to the board's staff](#).

The public has 45 days to comment on the tax increase before the board's public hearing on the issue in May.

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